

Impact of Long-Term Pay Freeze

September 24, 2010

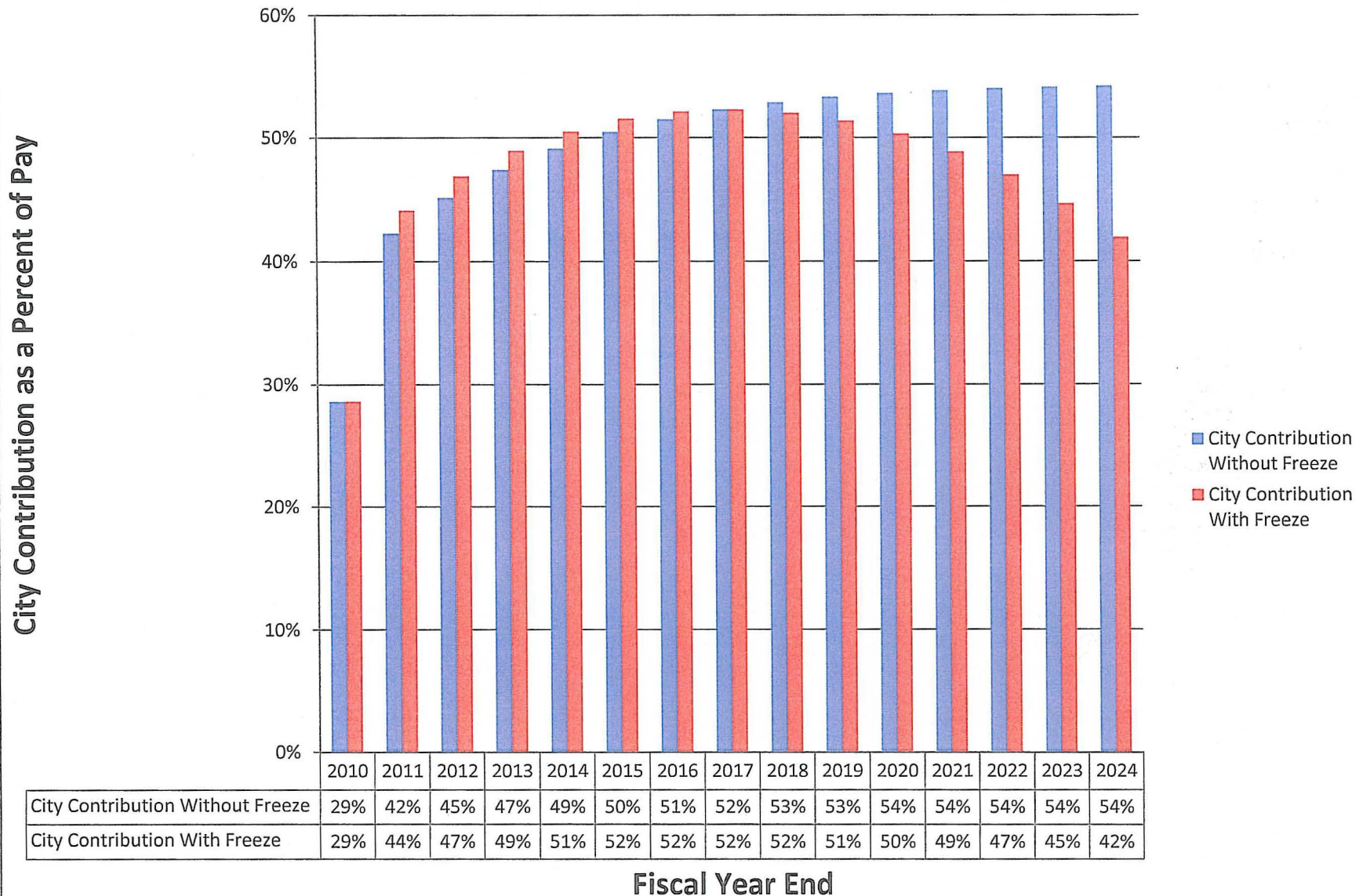
We were requested to complete an analysis of the impact of freezing the City's active member payroll indefinitely – starting as of the last completed actuarial valuation date of July 1, 2009. We showed the impact of the change both as dollar amounts and as percents of pay. The percents of pay can be slightly misleading since they will increase in the short-term due to lower payroll. The reason is that the current unfunded liability will be reflected as a greater percent of a diminished payroll.

In our analysis, we have assumed that all other actuarial assumptions are met and that current methodology is unchanged. This is a simplistic assumption. In reality, there would eventually be some changes in actuarial assumptions. For example, there might be higher incidence of employee departures than currently forecast in the actuarial model if an extended pay freeze is implemented.

Since \$1 in future years will have lesser value than \$1 today, we have also translated the total dollar savings into current present values.

City contribution rates and dollar figures do NOT include any additional pick ups of employee contributions that currently exist or might be negotiated in the future.

Impact of Pay Freeze on City Contribution as Percent of Pay

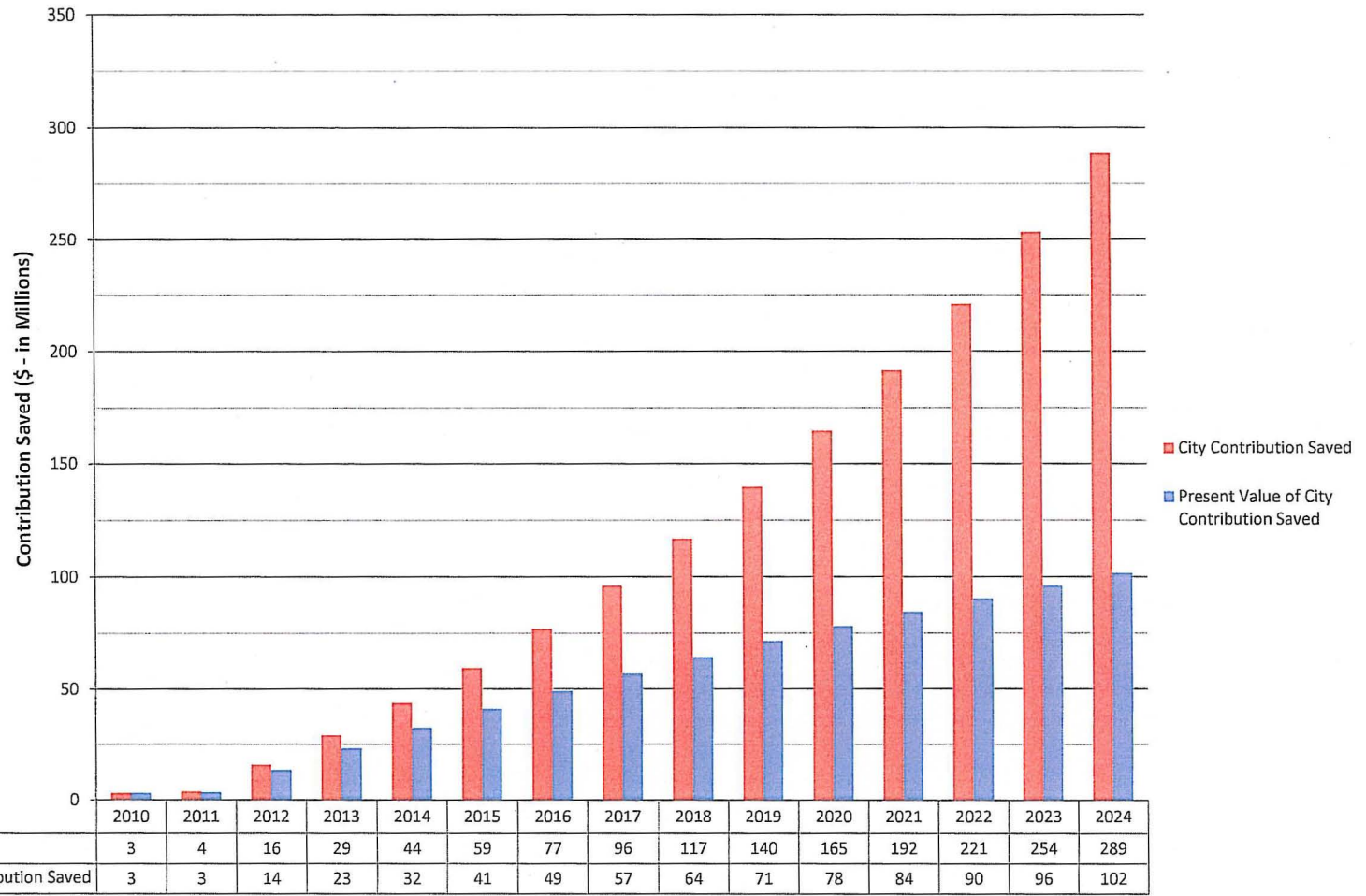


Impact of Pay Freeze on City Contribution



Fiscal Year End

City Contribution Saved Each Year with Pay Freeze



Fiscal Year End

Impact of Downsizing General Workforce

September 10, 2010

We were requested to complete an analysis of the impact of downsizing the City's active participant population on retirement contribution levels. Our modeling restricted the downsizing to General members. It was felt that Safety membership was not subject to any significant downsizing. We modeled 3 different levels of downsizing: 10%, 20% and 30%. We assumed that downsizing would not be disproportionately among lower or higher paid employees. We assumed that the downsizing would occur in three equal increments in fiscal year ends 2011-2013.

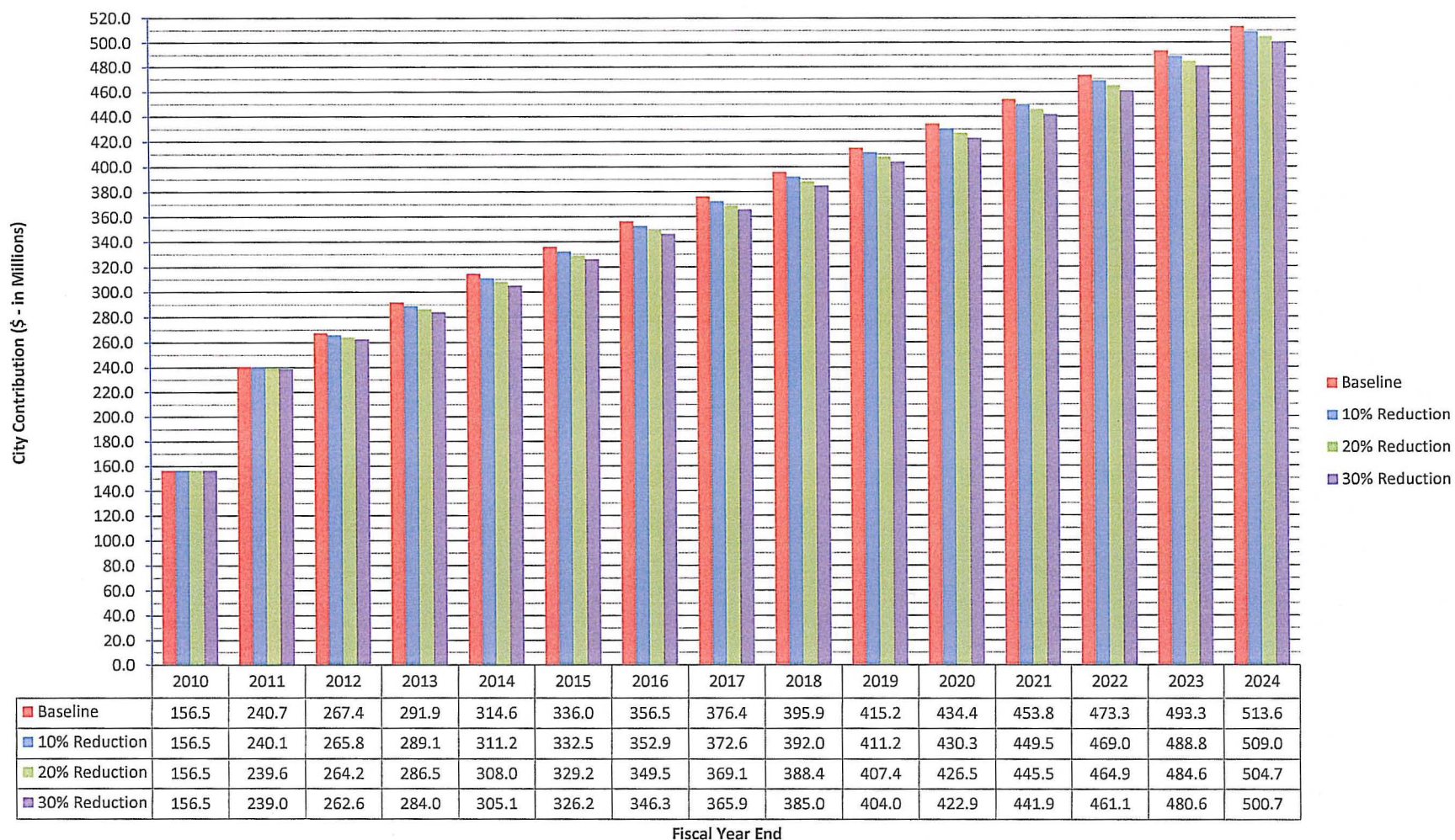
We showed the impact of the savings as dollar amounts and not as percentage of pay. The percents of pay are actually misleading since they will increase with downsizing. The reason is that the current unfunded liability will be reflected as a greater percent of a diminished payroll.

In our analysis, we have assumed that all other actuarial assumptions are met and that current methodology is unchanged.

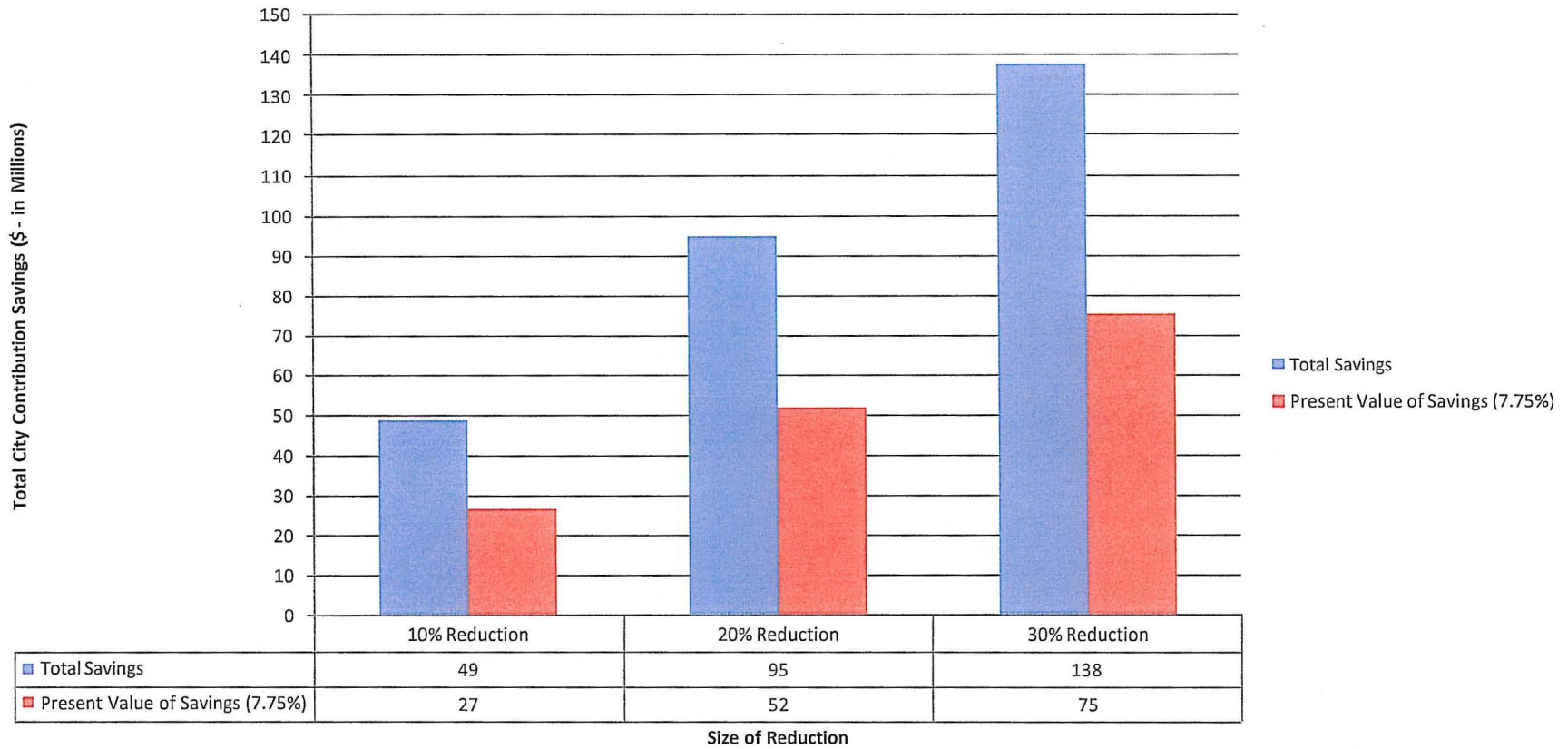
Since \$1 in future years will have lesser value than \$1 today, we have also translated the total dollar savings into a single present value sum under each scenario.

City contribution rates and dollar figures do NOT include any additional pick ups of employee contributions that currently exist or might be negotiated in the future.

Changes in City Contribution after Downsizing



Total City Contribution Savings Through FYE 2024



Impact of Varying Investment Return Assumptions

September 9, 2010

We were requested to complete an analysis of the impact of various investment rate returns on computed actuarial rates for SDCERS. Our baseline investment return used SDCERS' net current assumed return of 7.75%.

We showed the impact of four different alternative investment scenarios through fiscal year end 2024. In our analysis, we have assumed that all other actuarial assumptions are met and that current methodology is unchanged.

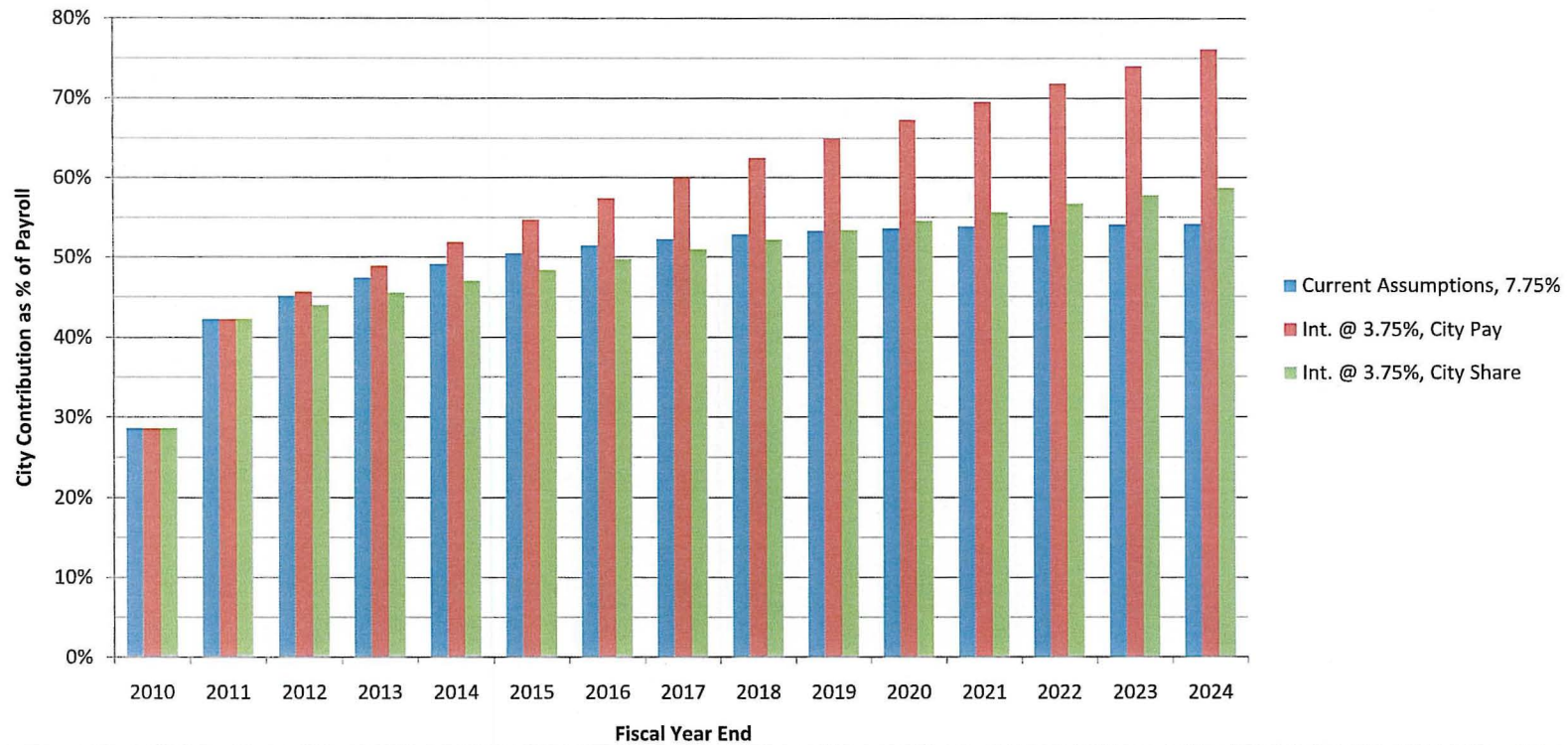
We assumed alternate net annual return assumptions of 3.75%, 5.75%, 9.75% and 11.75%. We have shown the City contribution rates, as a percent of assumed payroll, and the contribution dollars for a given fiscal year. Due to the one-year lag in the application of the actuarially determined contribution, the June 30, 2009 actuarial rate of 42+%, in the first valuation report issued by Cheiron, applies to the period July 1, 2010-June 30, 2011 (This summer, Cheiron issued a 2nd valuation report which slightly decreased the City contribution rates to 41+% due to employee contribution increases. We used the results in the first report since much of our work had already been completed when we were made aware of the 2nd valuation).

City contribution rates and dollar figures do NOT include any additional pick ups of employee contributions that currently exist or might be negotiated in the future.

We have also shown the impact of the City sharing future investment gains (or losses) with employees – shown as “City share” on the accompanying graph. We have made a simplistic assumption that any increase in the SDCERS rate has an equal impact on both the City and the employee rate. In fact, the employee rate would need to be slightly adjusted to reflect that a change in employee contributions will have an impact on potential refunds of employee contributions. Even in the two scenarios that assume future investment yields in excess of 7.75% will temporarily result in an increase in contribution rates because of the large investment deferred losses that existed in the 2009 valuation.

Future actuarial gains and losses are amortized over 15 years. Thus, the baseline model, if carried out into the late 2020's (and beyond) would show decreasing rates after the rate impact due to the 2007-08 investment decline is fully absorbed.

Assuming 3.75% Return



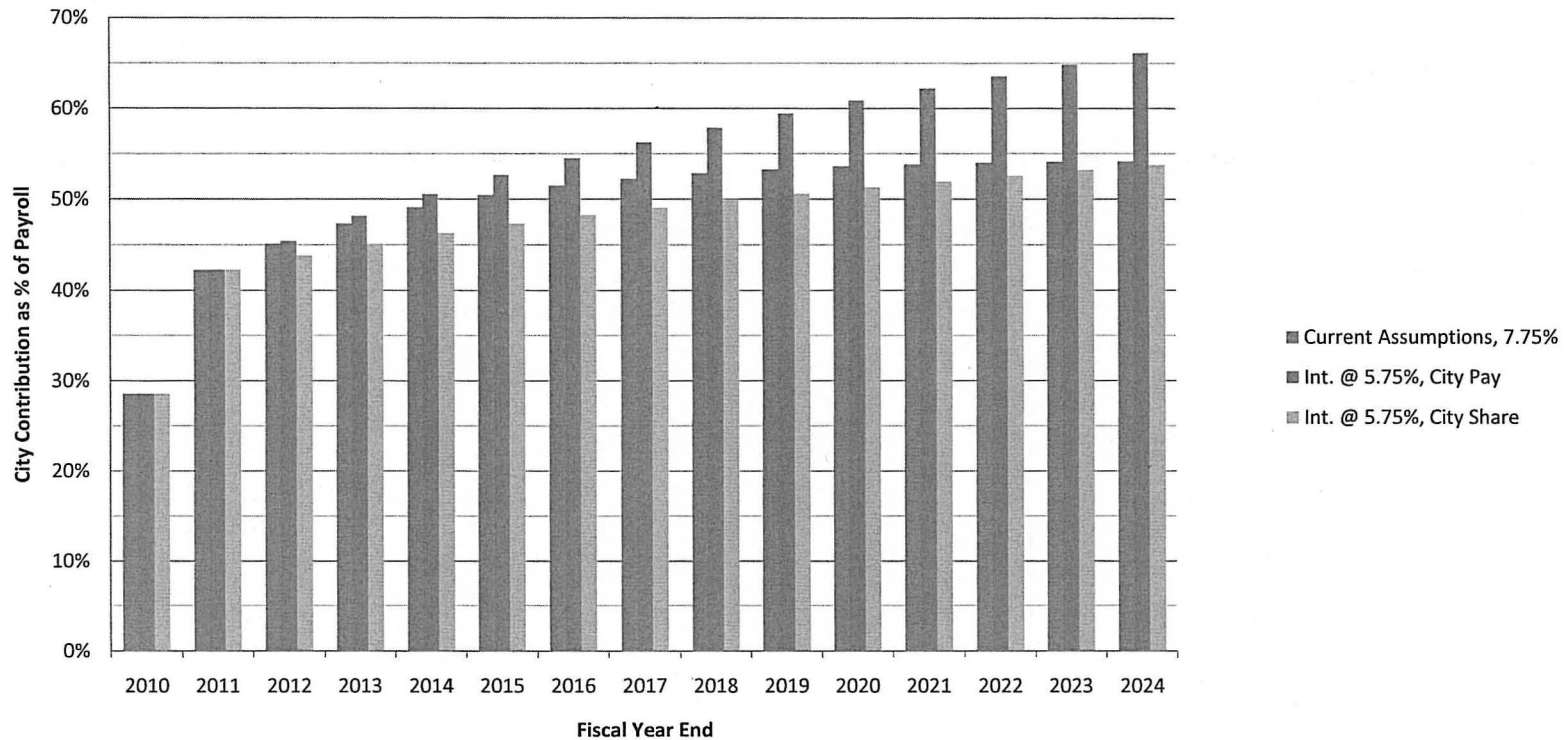
Total City Contribution for FYE (\$, in Millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current Assumption	156.5	240.7	267.4	291.9	314.6	336.0	356.5	376.4	395.9	415.2	434.4	453.8	473.3	493.3	513.6
City Pay	156.5	240.7	270.6	301.1	332.3	364.4	397.7	432.3	468.3	506.0	545.3	586.4	629.4	674.4	721.6
City Share	156.5	240.7	260.3	280.3	300.9	322.2	344.2	367.1	391.0	415.8	441.7	468.7	496.9	526.4	557.2

Projected Market Value as of June 30th (\$, in Millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current Assumption	3,479	3,658	3,910	4,179	4,461	4,753	5,053	5,357	5,662	5,967	6,268	6,562	6,847	7,118	7,374
5.75% Return	3,479	3,521	3,622	3,727	3,835	3,945	4,054	4,162	4,268	4,370	4,468	4,560	4,646	4,725	4,796

Assuming 5.75% Return



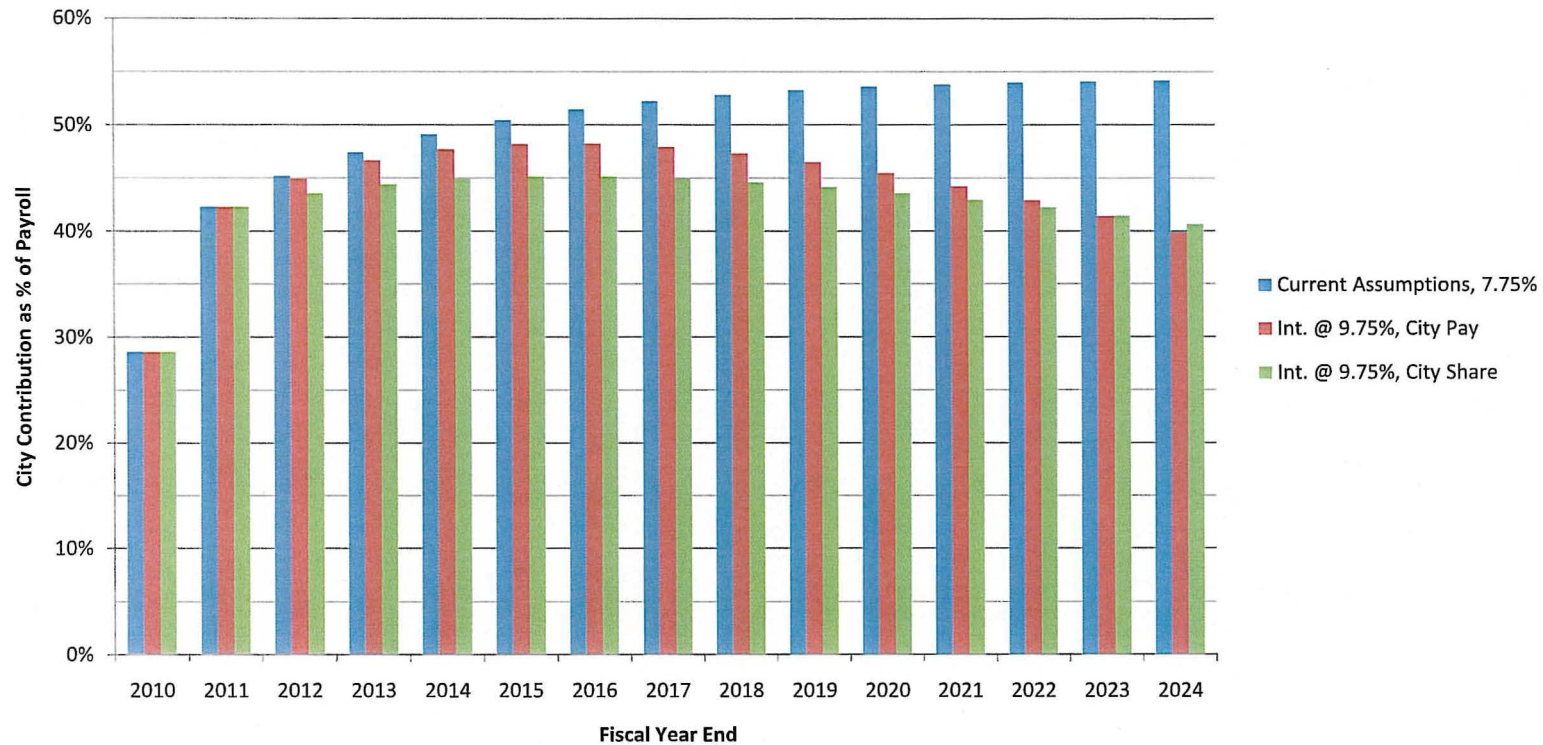
Total City Contribution for FYE (\$, in Millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current Assumption	156.5	240.7	267.4	291.9	314.6	336.0	356.5	376.4	395.9	415.2	434.4	453.8	473.3	493.3	513.6
City Pay	156.5	240.7	269.0	296.5	323.6	350.5	377.7	405.4	433.7	463.0	493.2	524.6	557.2	591.4	627.0
City Share	156.5	240.7	259.5	278.1	296.6	315.3	334.2	353.7	373.7	394.3	415.7	437.8	460.8	484.9	509.9

Projected Market Value as of June 30th (\$, in Millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current Assumption	3,479	3,658	3,910	4,179	4,461	4,753	5,053	5,357	5,662	5,967	6,268	6,562	6,847	7,118	7,374
5.75% Return	3,479	3,590	3,765	3,949	4,139	4,333	4,529	4,725	4,918	5,107	5,289	5,464	5,629	5,782	5,922

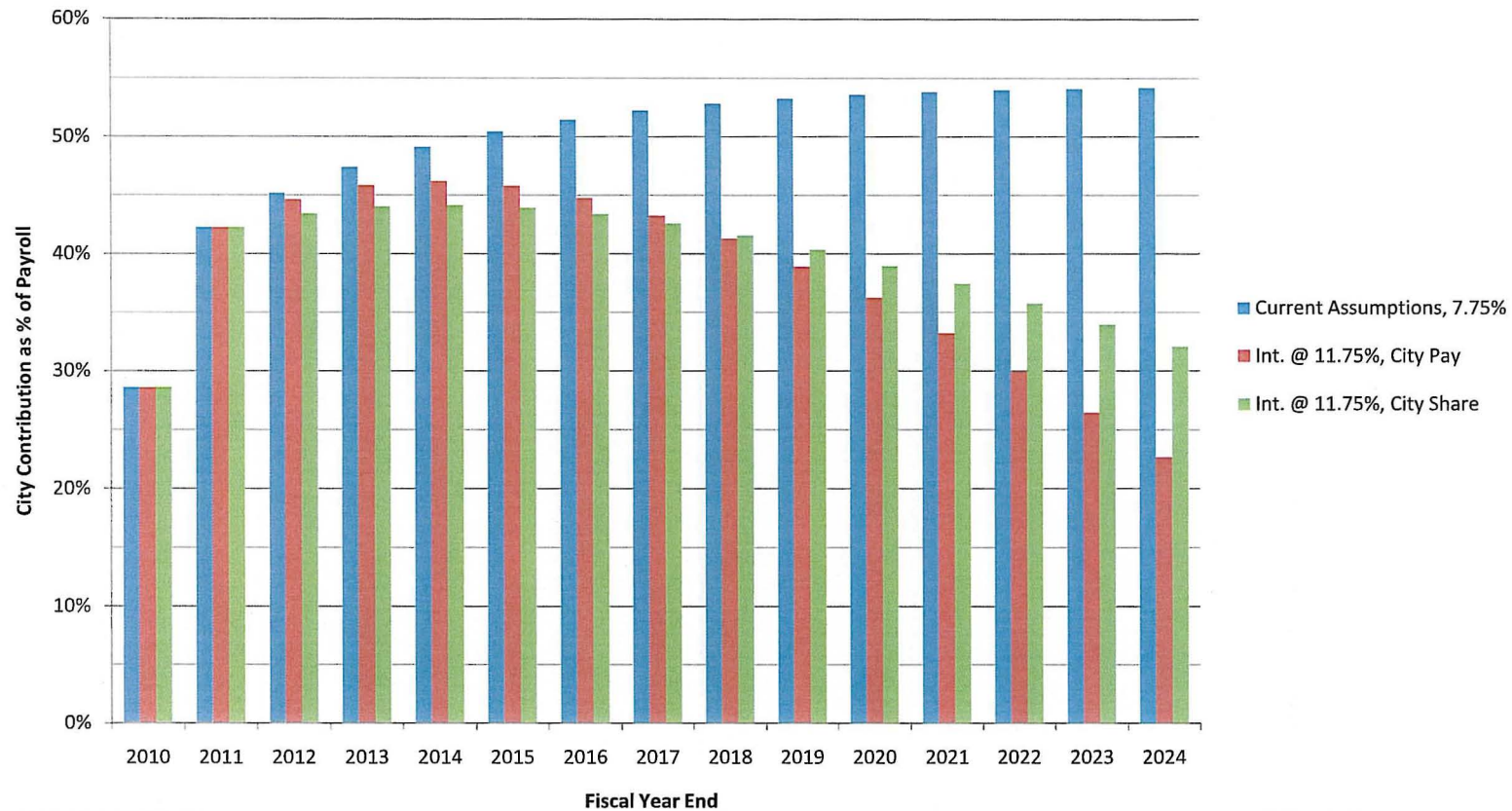
Assuming 9.75% Return



Total City Contribution for FYE (\$, in Millions)															
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current Assumption	156.5	240.7	267.4	291.9	314.6	336.0	356.5	376.4	395.9	415.2	434.4	453.8	473.3	493.3	513.6
City Pay	156.5	240.7	265.8	287.2	305.4	320.9	334.1	345.2	354.5	362.1	368.2	372.7	375.8	377.5	377.9
City Share	156.5	240.7	257.9	273.4	287.5	300.4	312.4	323.6	334.1	343.9	353.2	361.9	370.1	377.9	385.3

Projected Market Value as of June 30th (\$, in Millions)															
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current Assumption	3,479	3,658	3,910	4,179	4,461	4,753	5,053	5,357	5,662	5,967	6,268	6,562	6,847	7,118	7,374
5.75% Return	3,479	3,727	4,059	4,418	4,802	5,206	5,628	6,065	6,513	6,970	7,431	7,893	8,351	8,801	9,239

Assuming 11.75% Return



Total City Contribution for FYE (\$, in Millions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current Assumption	156.5	240.7	267.4	291.9	314.6	336.0	356.5	376.4	395.9	415.2	434.4	453.8	473.3	493.3	513.6
City Pay	156.5	240.7	264.2	282.4	295.9	305.1	310.3	311.7	309.3	303.3	293.6	279.9	262.4	240.9	215.2
City Share	156.5	240.7	257.1	271.0	282.8	292.5	300.5	306.8	311.5	314.5	315.9	315.5	313.4	309.6	304.0

Projected Market Value as of June 30th (\$, in Millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current Assumption	3,479	3,658	3,910	4,179	4,461	4,753	5,053	5,357	5,662	5,967	6,268	6,562	6,847	7,118	7,374
5.75% Return	3,479	3,796	4,210	4,666	5,162	5,694	6,260	6,857	7,483	8,135	8,808	9,499	10,203	10,915	11,629

Hybrid Plan Study

We analyzed certain scenarios where employees could opt out of the current defined benefit plan and opt into a "hybrid" plan. The hybrid plan would consist of two parts:

1. A defined benefit plan where both the benefit multiplier and the employee contributions would be reduced by 50%
2. A 5% defined contribution plan

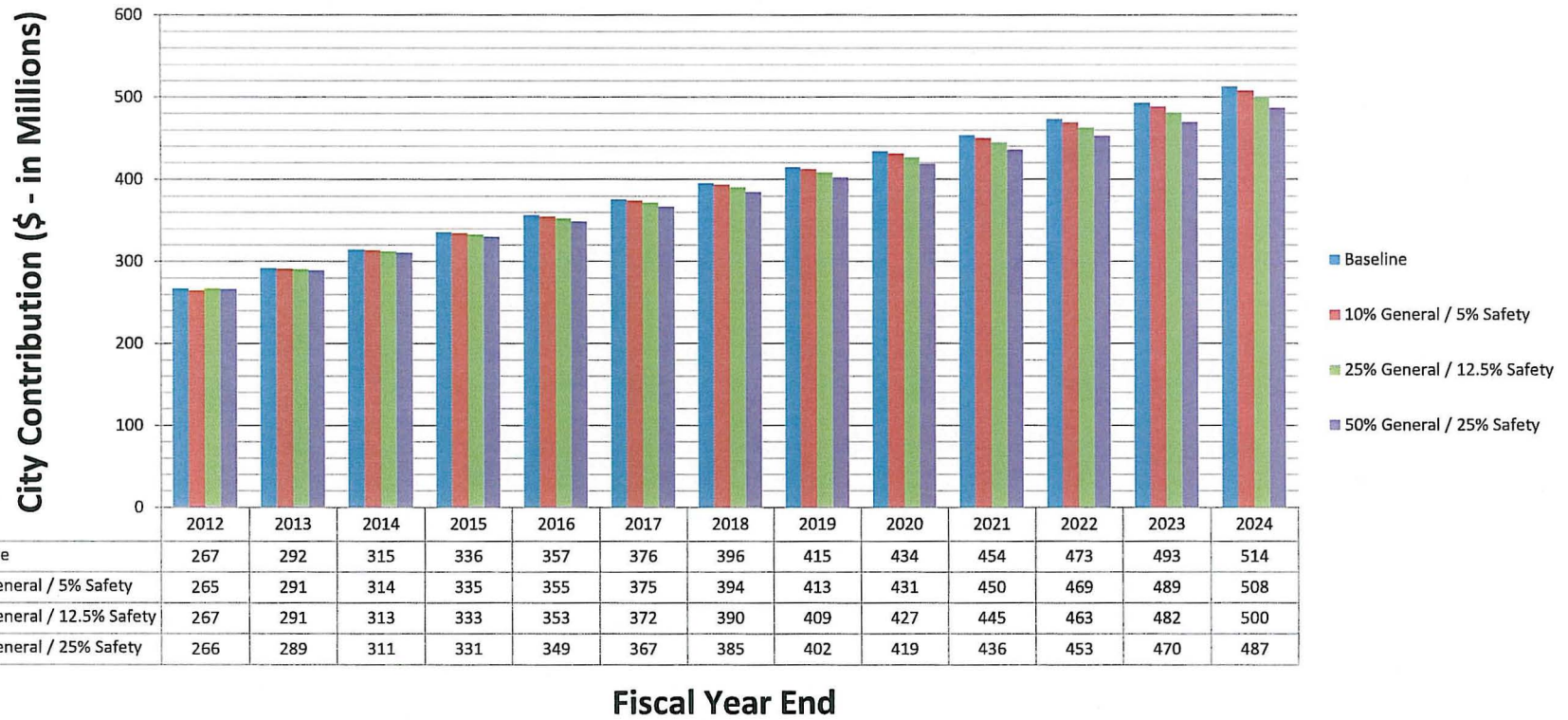
The degree of savings by instituting a hybrid plan will be a function of the amount of participants electing this proposed plan. We have assumed 3 scenarios where differing percents of participants would elect the Hybrid option. In each scenario, we have assumed that more General members would elect the option than Safety members, as follows:

- **SCENARIO 1:** 10% of General members and 5% of Safety members elect Hybrid.
- **SCENARIO 2:** 25% of General members and 12.5% of Safety members elect Hybrid.
- **SCENARIO 3:** 50% of General members and 25% of Safety members elect Hybrid.

For the sake of simplicity, we have applied the above percentages on a uniform basis to all ages of participants. In practice, we believe that the Hybrid Plan would be more attractive to younger employees than older ones. We believe that there will be more resistance among Safety members to make the switch—partly due to concerns about retirement upon disability.

We have shown the study results via two graphs. We have assumed that the implementation date would be July 1, 2011.

City's Contribution with Hybrid Plan assuming different Opt-Out Rates



Total City Contribution Savings w/Hybrid Plan through FYE 2024

